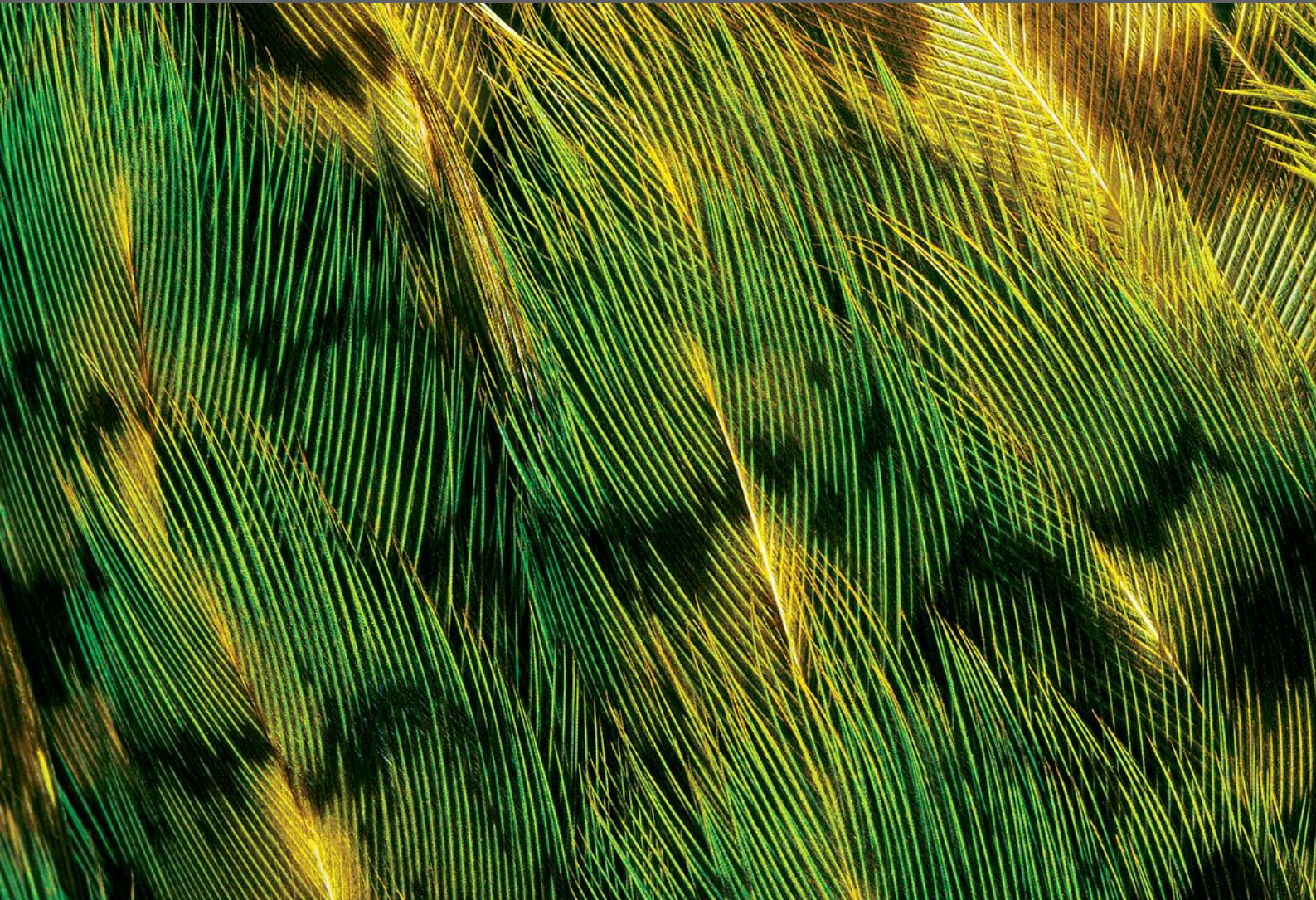


# Insurance Report

## Marlborough Heritage Trust

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Date: 08/04/2022



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## Summary

Thank you for your time recently and conducting a review of your insurance covers for Arthur Baker Place and discussing the ongoing concerns regarding the insurance premiums for the main building. This report will outline the following:

1. The insurer concerns regarding the main building and the reasoning for the ongoing increased premiums.
2. The requirements for renewal regarding the valuation provided.
3. The risk advantages of changing the cladding on the main building.
4. The estimated premiums Material Damage and Business Interruption Premiums for the upcoming insurance period
5. The estimated premiums that would apply should the cladding on the building be changed.

### Insurer Concerns

As previously advised, the cladding on the Main Museum building is a form of polystyrene. This product is considered very high risk from an insurance perspective. The main reason for this is that it is highly flammable and exceedingly hard to extinguish in the event of a fire. I have attached an article below for your review, this is from one of the major insurers in New Zealand and outlines the insurer's stance on risks of this nature.

Due to the concerns and the high value of claims that have been paid, insurers apply significant premium rates to buildings that are clad or insulated with such materials as well has significantly increased excesses. In the case of Marlborough Heritage Trust you have a \$10,000 excess for all losses on the main building structure. In addition, a lot of insurers are now refusing to take on new risks where this material is present, unless very stringent safety measures are in place. These can include but are not limited to:

- Full sprinkler systems inside and out of the building
- Fully automated fire alarm system with direct reporting to the fire service
- A full survey of the premises with thermographic imaging

It is important to note that your current insurer may ask for some of these safety measures to be implemented in the future in order for them to continue to provide cover. Also they are currently providing cover to Marlborough Heritage Trust at a lesser rate than a new risk would have applied to it.

# NZI discourages use of flammable insulated panelling



Recent apartment and factory fires around the world, resulting in millions of dollars' worth of property loss and in some cases, the loss of life, have resulted in a worldwide debate over the safety of insulated panelling.

Insulated panelling is used extensively throughout New Zealand, especially to support key industries like dairy, meat and seafood processors, wineries, cool stores and other food-related businesses.

One of the most common materials used in the core of the panelling is expanded polystyrene (EPS), which is highly combustible.

One of Australia's largest meat processors, Thomas Foods' abattoir caught fire last year, resulting in tens of millions of dollars' worth of damage.

Fire investigators determined the blaze was started accidentally by a worker who was welding an offal bin. It unfortunately went through a wall with EPS insulated panelling and spread through the premises extremely quickly, putting factory workers lives at risk. Luckily no one was hurt, but the company was left with a hefty damage bill.

Bryan Tedford, NZI's national business continuity and asset protection portfolio manager, says once a fire begins, EPS panels melt quickly and release vapours, which can increase the spread of a fire throughout an exposed building.

"The fire will spread throughout the building in just seconds, which not only results in major property loss, but also puts people's lives at risk."

Tedford says it's important all businesses using insulated panelling are informed on how to manage exposure.

"Wherever possible, our advice to those planning to construct with EPS, is to substitute for a non-combustible panel like PIR.

“For insulated panelling sites, risk management is a priority, so businesses should also be safeguarding themselves with an approved sprinkler system, regular preventative electrical inspections and implement formal hot works procedures.”

Tedford says NZI has reviewed the way it insures properties with insulated panelling and this is intended to encourage clients to use safer alternatives to EPS.

“NZI clients who use preferable panels like PIR and/or safeguard their premises with approved risk management requirements, will have higher limits available to them for material damage and business interruption (combined limited) insurance than those premises that don’t.”

He says it’s a common-sense approach and one that fits with parent-company IAG’s purpose to make the world a safer place.

“We’re realigning our risk appetite to ensure we can continue to offer cover for our clients and keep New Zealand safe.”

### Renewal requirements

Following the receipt of the valuation for the building, we agreed not to increase the sums insured for the building mid-term. The insurers agreed to this as they understood the implications regarding funding etc. However, it will be a requirement to increase the cover as at the July renewal in line with the valuation provided. This will increase the sum insured for the main building to \$5,606,000.

The insurer has also advised that there will be an increase in premium rates this year and the premiums advised below are reflective of this estimated increase.

If the valuation amount was not applied, then an average clause would be implemented over the cover. An example of this cover is noted below.

### Average Clause

#### **Average Clause -**

This clause is applicable to all losses where there is underinsurance provided the Average Clause is shown as applicable under Application of Warranties & Additional Conditions in the Schedule, other than buildings or plant where at inception or renewal of this Certificate there is a valuation that is no more than 3 years old and the sums insured are no less than the valuation.

To comply with Section 16 of the Insurance Law Reform Act 1985 the meaning of "Subject to Average" is set out below:

#### *The Meaning of Subject to Average*

*"(1) Your insurance policy contains a provision making it 'subject to average'.*

*"(2) That provision will have effect only if the property insured under the policy is underinsured at the time of loss.*

*"(3) If the property insured under the policy is underinsured at the time of loss, the following rules apply:*

*"(a) If you suffer a total loss, the provision will have no effect:*

*"(b) If you suffer a partial loss, the maximum amount that you may recover will bear the same proportion to your actual loss as the amount for which the property is insured bears to the full value of the property:*

*"(c) Whatever your loss, in no case will you be entitled to recover more than the amount for which the property is insured.*

*"Example: Your property is worth \$20,000. You insure it for \$10,000. You suffer a loss of \$5,000. If your policy is 'subject to average', the maximum amount that you may recover will be \$2,500."*

Effectively, the insurer will only pay for a percentage of the loss incurred less any applicable excess. As you also have a significantly increased excess of \$10,000 this could mean that there was no payment in the event of a loss.

If you have any queries regarding the content of my report please do not hesitate to contact me. I look forward to hearing what the Trust decides with regards to the increase to the sum insured.

Vero will also require a thermographic imaging report to be completed on the main building. This involved a qualified electrician completing a scan of the building to ensure that there are no faults, increased temperature readings or concerns regarding the wiring in the building. The cost of these reports can range from \$650 to \$1,500 and any faults or concerns that are raised in the report will need to be remedied within 30-60 days. A local provider for this report is Callahan and Martella Electrical.

### Risk advantages of changing the cladding on the main building

The biggest advantage from the point of view of the trust would be the decreased risk of a total loss to the building. This would mean that there is a lot less likelihood of losing the contents of what is held within ie the exhibits and archives. I think it can be agreed that these are the real value to the Trust and Marlborough.

However from the insurance cost and risk perspective the following would apply:

1. A significantly lowered annual insurance premium.
2. The ability to obtain quotes from alternative insurers to ensure market competitive rates. Currently other insurers have declined to quote on the risk due to the cladding on the main building.

3. Return to a standard insurance excess structure with a \$500 standard excess.
4. No requirement for ongoing thermographic imaging.
5. No requirement to install further risk mitigation devices such as full sprinkler systems and monitored fire detection. Although given the nature of the contents held we would probably still recommend a review of these options.

You have noted that to change the cladding would be approximately \$100,000. We believe that should the cladding be changed then the premium savings would equal at least \$100,000 over a 5 year period. An outline of estimated costs follows.

Should you have any queries or if you would like to make a time to discuss this further please do not hesitate to contact me.

## Estimated cost of Material Damage and Business Interruption insurance 2022-2023

<b>Insurance covers for 24 Arthur Baker Place, Blenheim</b>	<b>Sums Insured</b>	<b>Annual cost (premium) – Includes Government levies but excludes GST</b>
<u>Material Damage</u> Main Building Other Buildings Contents / Archives	\$5,606,000 \$1,000,000 \$ 950,000	\$62,067.82
<u>Business Interruption</u> AICOW Claim Prep	\$ 300,000 \$ 5,000	\$ 2,357.65
<b>Subtotal ex GST</b>		<b>\$64,425.47</b>

## Estimated cost of Material Damage and Business Interruption insurance (Should the Polystyrene cladding be replaced)

<b>Insurance covers for 24 Arthur Baker Place, Blenheim</b>	<b>Sums Insured</b>	<b>Annual cost (premium) – Includes Government levies but excludes GST</b>
<u>Material Damage</u> Main Building Other Buildings Contents / Archives	\$5,606,000 \$1,000,000 \$ 950,000	\$39,842.12
<u>Business Interruption</u> AICOW Claim Prep	\$ 300,000 \$ 5,000	\$ 1,479.25
<b>Subtotal ex GST</b>		<b>\$41,321.37</b>

Please note: These costs are indicative only and cannot be confirmed until closer to renewal or post confirmation of the change of cladding. They are for the Material Damage and Business interruption only. Your Liability and Vehicle covers will be in addition to these at renewal.



If you have any questions or would like more information  
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